STRATEGIC INSIGHTS

Strategic Frontier Management

October 15, 2019

Full English BREXIT

Citizens of the United Kingdom voted in June 2016 to *Leave* the European Union (EU). It was a surprising result given few expected a 52-48 majority of voters to seek EU independence. The referendum reflected voters' dissatisfaction with dysfunctional, undemocratic, and costly EU bureaucracy needing reform. Membership in the EU no longer serves the UK's best interests.

We published *British Independence Day* on June 24, 2016, which offered a few bold forecasts: (1) Extended BREXIT uncertainty can adversely affect both the UK and EU economy, diminishing foreign investment, (2) UK economy, equities and currency can perform at least as well as for the EU, and (3) UK should realize positive economic and fiscal benefits bolstering potential growth and global competitive advantages with greater independence of trade, tax, and regulatory policy. The third insight remains key to the UK's post-BREXIT future, overwhelming short-term costs of transitional disruption and uncertainty. Our outlook for the UK's economy was quite the opposite of apocalyptic predictions. The UK seeks continued fair trade, but the EU refuses to negotiate on trade, residency, and defense, among other issues, until a separation agreement is reached.

Prime Minister Boris Johnson seeks a *Full English BREXIT* by October 31st with or without a BREXIT Deal. A *separation agreement* remains allusive as the EU seeks continued trade and regulatory harmonization. Any deal requires unanimous consensus among the other 27 EU nations, but France and Germany don't decide whether or not the UK can leave. EU leadership has marginalized the democratic decision for three years, hoping to render *leaving* meaningless or delay long enough to trigger a second referendum. A separation agreement is better than *No Deal*, but the UK has the right to self-determination and needs leverage to secure a fair separation. Only then will EU negotiate fair trade, residency, or defense issues. It is not constructive to demand it will only grant another extension if the UK agrees to a general election or a second referendum, neither of which strengthen the EU's position anyway. The EU has hoped to maintain a common market, which precludes the ability to alter regulatory policies or establish new trade deals.

UK Parliament also frustrated attempts to negotiate a deal, ignoring its leverage to unilaterally *Leave*—a majority of voters believe Parliament has impeded a deal. After rejecting a weak deal that limited new trade deals and remaining in the common market, Parliament further limited the Government's negotiating leverage by outlawing a No-deal BREXIT. The *Benn Act* requires the Prime Minister to ask for another EU extension if no BREXIT deal can be agreed, but a Scottish court ruled it is not 'necessary or appropriate' to force such a request. Boris Johnson called for a snap election that is likely to rebuild his majority, but Labor opposed any early election that likely further limits their relevance.

Conventional wisdom believes *No Deal BREXIT* risks economic disruption, job losses, and shortages of basic needs, but these fears may be exaggerated and likely only transitional. The downside of leaving without an agreement could be as exaggerated as mythical concern not joining the *European Economic and Monetary Union* (EMU) two decades ago, but a deal should extend a transition period to limit disruption. Three years of this uncertainty probably was more destructive than if the UK had simply left the EU on its own terms under WTO rules. Independence of EU rules, bilateral free trade deals without compromise, tax and regulatory reform, while eliminating EU expense can boost UK potential growth and increase global competitiveness.

If there was any doubt before, it is clearly time for a *Full English BREXIT.* Concern of transitory economic costs have failed to materialize, but expected benefits of BREXIT are still to kick-in. Many EU countries are still flirting with recession due to poor policy decisions and political dysfunction causing fiscal misery and economic distress. UK growth might have been better without BREXIT uncertainty, but the economy has faired better than feared and clearly outshined the rest of the EU.

The Queen's Speech on October 14 included: "My government's priority has always been to secure the United Kingdom's departure from the European Union on the 31st of October", while Boris Johnson insists "the country will leave at the end of the month with or without a deal." Both sides say they are prepared for *Leaving* without a deal, but the UK Government published its [No-Deal Readiness Report]() on October 8th to ensure minimal disruption for UK households and businesses, including plans to allow goods and people to move across UK borders after October 31st. No reliable figures exist to quantify the feared relative economic costs of remain, leave, or delay. Yet, there is no fundamental reason to limit trade exiting under WTO rules, if a simple status quo agreement on a free trade basis is not possible. It would be in the EU's best interest to reach agreement before supply chains are re-configured, just as China has experienced over a period of lingering US trade tension. An exodus of manufacturing from China has begun and is unlikely to be restored in the *Machine Age*, which has reduced competitive advantages of low-cost labor.

Many believe the EU Council and European Parliament are undemocratic in any conceivable dimension. The EU's Parliament may only approve legislative proposals of the Commission. The Council requires unanimous vote on sensitive economic and political matters, including: foreign and security policy, fiscal policy, judicial organization, citizenship, and immigration, as well as harmonisation of national legislation on taxation, social security, and welfare protection. That the UK will no longer need to be under the supranational jurisdiction of the *Court of Justice for the EU* is a key attraction of *Leaving,* re-establishing supremacy of British law.

Global economic conditions, including in the UK, remain cyclically favorable to absorb a transitory disruptive shock. Once BREXIT is in the rear-view mirror, we expect UK pent-up consumption and investment to accelerate. Risk premiums in the UK's equity and bond markets could eventually also diminish, as real growth increases and investors focus more on fundamentals. Democratic Socialist policies have undermined the EU's competitive advantages with increasing demographic and fiscal headwinds. Evolving EU policies are becoming more incompatible with the UK's fundamental beliefs, except for the increasingly less-relevant Labor Party, led by Jeremy Corbin (Socialist). Of course, this *clash of ideologies* is global, as well as increasingly evident in the US, Canada, and Australia beginning a decade ago.

Global trade has become a geopolitical issue triggered by America's pursuit of a *New Order in Global Trade*, highlighting the benefits of bilateral vs. compromised multilateral trade agreements. The UK will be better off negotiating new trade agreements with the US, Japan, Canada, Australia, and even China. The example set by the US Tax and Regulatory Reform demonstrate once again (previously, *Reagan Revolution*) the benefit of free markets, level competition, capitalism, liberty, equal opportunity, fair trade, and rule of law driving greater potential growth, global competitive advantage, fiscal stability, innovation, and job creation.

Its Complicated: Significant Issues Limiting a Deal

The most significant issue for a withdrawal agreement is maintaining an open or low-friction border between Northern Ireland (UK) and the Republic of Ireland (EU), which is believed vital to maintaining peace and was central to the Good Friday settlement of 1998. The EU prefers that the UK remain in the customs union and argues technology-enabled soft borders are insufficient. Experts believe new systems can support smart borders and frictionless customs. An *Irish Backstop* included in a previous agreement, but kept the UK in a customs union if the EU and UK fail to reach agreement resolving trade and regulatory issues was voted down in Parliament. The latest UK proposal does address the Irish border in a way acceptable to Ireland and avoids a customs union for Great Britain, while the DUP of Northern Ireland also indicated it agrees compromise is needed. That makes it hard for the EU to reject a UK deal proposal.

Various alternatives avoid the UK remaining in the common market, namely: (1) EU-UK free trade agreement with an invisible-tech border solution for Ireland, or (2) Hard border in the Irish Sea, implying that Northern Ireland must abide by EU rules and regulations, but forfeits UK territorial integrity. Many land borders exist worldwide as examples, such as US-Canada or around the EU (i.e., Switzerland, Norway, Ukraine, Serbia, Belarus, etc.) that are longer or more difficult to secure. Modern customs technology, including RFID and advanced sensors, allow passive global tracking of shipments. The UK and Ireland both desire an invisible border without customs checkpoints or fortifications, but the UK believes it must exit the common market.

Great Britain is an island, as is Ireland, so it naturally already sorts EU vs. non-EU citizens at its border arriving by air and sea. So, a little efficiency and technology can go a long way to easing any transition to UK vs. non-UK citizens at entry points. Note that the Irish border is just 310 miles, so securing any land border is far less difficult than for any other EU member. Another issue that must be resolved is residency for non-UK citizens that wish to stay past June 2021, or Dec. 31, 2020 if there is *No Deal*.

Finally, there is the issue of financial liability. An EU settlement has ranged from £32.8 billion (ref: UK Office for Budget Responsibility) to £50 billion included in the previous deal that was rejected three times by Parliament. We believe a *No-Deal* BREXIT has become more likely, while the chance of second referendum to forestall BREXIT remains slim, but also is assumed undemocratic and unlikely to change the current course.

What does it mean to be ready for BREXIT? There are similarities to Y2K, which required a lot of work, but once addressed, didn't result in any apocalypse that so many feared. There are similarities to the decision whether to adopt the Euro. Many believed not joining EMU would be an economic disadvantage, catastrophic for trade, and limit foreign investment. Why the UK didn't join EMU is still debated, but it was a good decision for the UK given that the Euro continues to fail five critical tests necessary to adopt it, as defined by Chancellor Gordon Brown[1]. Given similar logic, EU membership has failed to live up to comparable economic, regulatory, and fiscal needs, including preserving liberty and self-determination.

It would be useful if the United Kingdom had a formal constitution to guide it during this period, rather than an uncodified constitution. BREXIT provides an opportunity to develop one consistent with the mosaic of existing British laws and legal precedent to vest three independent branches of government. Afterall, UK voters already rejected dysfunctional EU collective bureaucracy and regulation to promote greater competition, free market capitalism, productivity, and enduring prosperity to raise economic potential growth.

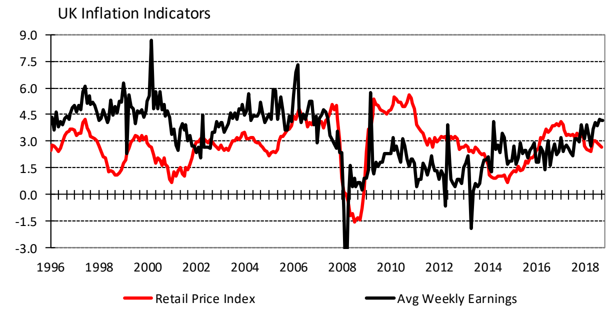
Efforts to broaden central planning across borders fails when countries do not share similar fundamental organizing beliefs, values, and policy objectives. This is increasingly problematic with the Court of Justice of the EU defending supranational vs. deference to national sovereignty and interests in an age of increasing global judicial activism, including the US. Technology privacy, taxation, patents, anti-trust, competition, and inequality are issues that beliefs and legal remedies can differ.

Job loss attributed to outsourcing is blamed on compromised trade agreements, but protectionism fails to acknowledge forces of innovation-driven creative destruction needed to drive productivity. Labor intensive production shifted to lower wage countries, but now smart automation is closing the labor intensity gap, driving manufacturing onshore.

Martin Wolf (FT.com) believes "Britain's failure to understand the EU's position is a stumbling block", but we believe any stumbling block is the EU's failure to respect the UK's sovereignty and their unilateral right to BREXIT (*Deal* or *No Deal*) with or without the EU's consent. Our belief is that successful BREXIT depends on the policies and common ground established once a practical course is set.

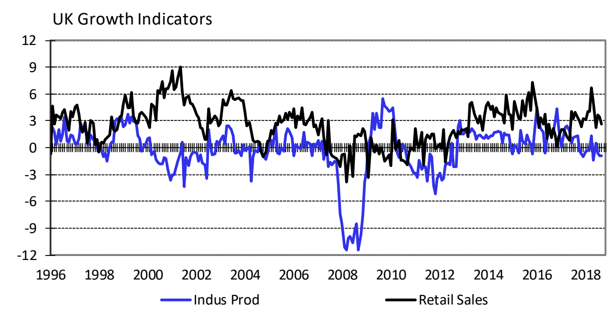
European Economic Independence and Sovereignty

Economic integration also was formalized by the *European Monetary System* (EMS) set up in 1979 to foster closer monetary policy co-operation with the *European Community* (EC), and later succeeded by the EMU, which established the Euro as a common currency among its members. Notably, Sweden, Denmark, and Switzerland also retain their sovereign currencies.



Source: Refinitiv DataStream & Strategic Frontier Management

The UK decision not to join EMU has proven correct. Consumption grew 3.4% with 2.6% inflation over the last year, which exceeded the EU, as well as over the last decade. Growth isn't gangbusters, or even approaching potential yet, but is a lot better then elsewhere in Europe where inflation[2] is closer to zero than target. Wages are rising 4% and 3.8% unemployment (compared to France: 8.5%, Italy: 9.5%, Germany: 5%) is the lowest since 1974. Greater fiscal, monetary, and currency flexibility in the UK yielded better job growth, lower unemployment, and higher potential growth than generally observed in EMU.

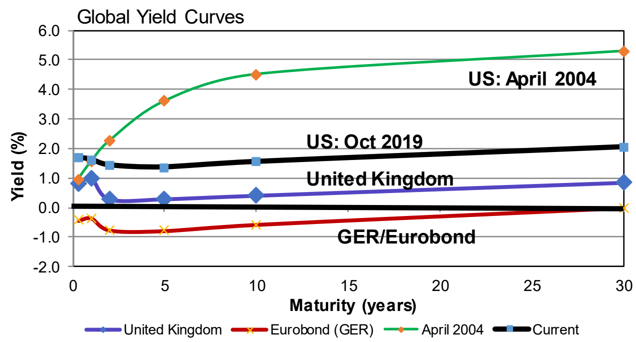


Source: Refinitiv DataStream & Strategic Frontier Management

The ECB's monetary distortion of unconventional policies for over a decade have led to negative interest rates across many of Europe's inverted yield curves. A weak currency and negative bond yields highlight the failures of EU economic and ECB monetary policies, which the UK should distance itself. One chart says it all more than a decade after the Financial Crisis, as the US and UK yield curves were dragged lower by the gravitational pull of Europe's (and Japan's) interest rates as ECB central bank holdings are unsustainable.

[1] Economic integration across EMU must be sufficient and compatible enough so that the UK could live with common interest rates despite business cycle divergences, (2) Monetary system must be flexible enough to deal with both local and aggregate economic problems, (3) Adopting the euro must supporting foreign and domestic investment, (4) The Euro would support competitiveness of the UK's financial services industry globally, and maybe most importantly, (5) Adopting the euro must promote higher growth, stability and job growth over the long-term.

[2] ECB inflation concern: CPI in Germany:1.2%, France:0.9%



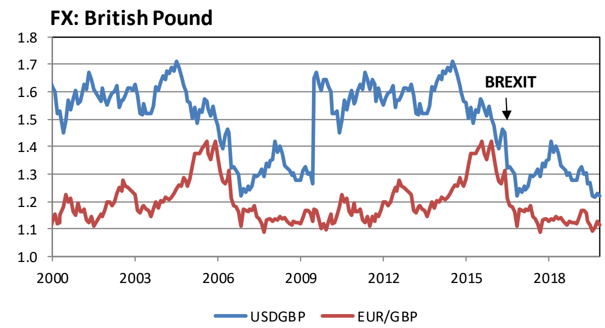
Source: Refinitiv DataStream & Strategic Frontier Management

Only western developed democracies that embrace free markets, liberty, self-determination, and capitalism have higher positive interest rates and growing economies, namely the UK, Canada, Australia, New Zealand, and the US. The US has the highest interest rates of all, in part due to its stronger economy—sovereign credit ratings don't seem to matter much these days. A decade of low interest rates and extended quantitative easing begs the question whether a single currency provides the ability for the *invisible hand* to rebalance economic and policy differences. The Euro once competed as an alternative reserve currency, but it is inconceivable now.

The Euro has been a dismal experiment with a confused central bank needing an alternative mandate (i.e., sustainable growth), rather than naïve inflation targeting. Countries are often tripped up by the Maastricht Treaty, hoping to avoid politically-unpalatable fiscal austerity. Dismal lessons learned during EMU's single currency experiment should not be dismissed, although few acknowledge concerns about a push for a *global single currency*, fixed exchange rate regimes, cashless society, or alternative reserve currencies and cryptocurrencies.

Black Wednesday (1992) demonstrated the potential risk when one country's currency is pegged to others without full economic integration. Speculators targeted vulnerabilities by seeking to break artificial links—the British pound fell below the EMS target band requiring the BoE to defend pound sterling in the open market and increase interest rates. By evening, the UK decided to leave the ERM and speculative attacks subsided resulting in huge losses for Bank of England and a king's ransom for George Soro's Quantum Fund, which initiated the currency attack with highly leveraged positions. EMS bands eventually widened to be of little consequence, effectively ending the failed experiment in fixing exchange rates. High interest rates likely drove the UK into recession, as many businesses failed and housing fell, but likely paved the way for an economic revival and greater sovereign independence, which supported bypassing EMU less than a decade later. We believe EU separation will prove a similarly beneficial decision for the UK economy.

A floating and independent British pound was a blessing during the European Debt Crisis, separate from the Euro, Eurobond market, European Central Bank (ECB), and fiscal constraint of the Maastricht treaty. The Euro and British pound weakened versus the US dollar since 2008, but EUR/GBP has been stable post-referendum after an initial break in 2016. BREXIT uncertainty likely restrained EUR/GBP, but GBP could strengthen beyond 1.3-1.4 with BREXIT clarity. Currency often indicates investors' perceived relative economic strength.



Source: Refinitiv DataStream & Strategic Frontier Management

Banking, trading, and asset management margins have plunged due to global competition, falling transaction costs (decimalization, bid-ask spread), increased fee transparency, innovation, and other disinflationary forces. Yet, the EU has sought to increase global share of financial services at the expense of London, but we believe this is wishful thinking. The EU is fighting to gain market share at a time trading commissions have plunged and mergers among exchanges obliterated country identity of exchanges. There is nothing the EU can do about globalization of financial markets, exchange consolidation, electronic markets, or other advances in technology and telecommunications to increase relevance of Frankfurt or Paris as financial centers of influence—they need to compete globally.

Fear of job and resource dislocation in London is evident among foreign banks and financial companies, but share of European stock exchange volumes are unlikely to shift much after BREXIT, although EU regulatory threats weigh on London-based financial services. London has remained a dominate financial capital despite not joining the EMU in 1999, and will likely remain so well after BREXIT. London's unique capital market dominance, including currency trading, benefits from independence of its monetary policy and currency. Geography is a sustainable competitive advantage in trade and commerce, but once lost is difficult to recover.

Regulation efforts can't overcome competitive dynamics that drive market share. For example, consider how Ireland's low income tax rate increased Dublin's appeal as a destination for businesses. US corporate inversions became problematic, until US tax reform rebalanced the equation beginning in 2018—the concern faded away. Fears that London could be marginalized after BREXIT are naïve and illogical given globalization of financial services and banking. Global banks warned about BREXIT dislocation, but reality suggests need for smaller complementary EU offices, rather than leaving London, and more likely to Dublin than Frankfurt. This increases cost, but BREXIT should be less a concern than creative destruction of advancing automation and innovation.

Attempts to impose financial transaction taxes are a bad idea. Historical experience supports strong academic theory why such policies fail and eventually are repealed. If the EU or US attempt to impose such nonsense, their own exchanges will lose market share, cost of capital increases, as both domestic and foreign investment decline. The UK has resisted EU efforts despite its own existing stamp taxes, but after BREXIT, the advantage may tip in favor of London's exchanges. Regulatory changes that limited flexible incentive compensation plans in financial services is another EU policy anomaly that London can leverage for its sovereign advantage.

Free market competition drives innovation. Government should promote fair markets and manage safety concerns for consumers, businesses, and labor, but excessive regulation stifle growth, increase economic inefficiency, limit investment, increase cost of capital, and can raise barriers to entry for small businesses. It is not surprising equity earnings multiples declined, and are considered cheap as growth prospects dimmed across the EU. UK equity markets have potential to be re-rated, but for the remaining EU it could be a value trap. *EU Remainers* are not likely to tackle fiscal and regulatory reform needed to boost potential growth

The UK need not remain tethered to a deteriorating Eurozone with declining potential growth and failing monetary policy. Real growth and employment in the UK are much better than Remainers expected (1.7% average, but rising from 0.7% growth in 2016 to 2.0% recently), and better than most EU countries, even with the benefit of currency devaluation. Unemployment also has fallen from 5% to 3.8%. The BoE even raised interest rates a bit, while the ECB is paralyzed with negative bond yields and obscene balance sheet—how can the UK soar when tethered to this compromised union? Economic and currency uncertainty may persist until new trade agreements and governing institutions fall into place, but concerns about destabilizing global growth or recession risk are mistaken. A *Full English BREXIT* should increase global economic and capital market divergences, as well as increasing tactical opportunities and international diversification.

Global Trade

The UK has greater negotiating leverage given their trade deficit with the EU, which has more to lose if existing free trade is no longer extended to the UK. In 2018, the UK had an overall trade deficit with the EU of £64 billion, despite a £29 billion trade surplus in services offset by a £93 billion trade deficit in goods. The UK runs a trade surplus with only Sweden and Ireland, but Germany, Spain, and Belgium have the most to lose. Composition of future EU trade will depend on what kind of post-BREXIT agreement is reached, but financial services remains critical to about 80% of the UK economy reliant on services. The EU economy continues to lag globally, so why would the UK want to remain tethered in an EU common market and unable to secure independent trade deals to serve its best interest?

UK exports may be overstated and the trade deficit even greater given shipments transiting, before reaching non-EU destinations for less scrutinized national accounts in a free trade zone. EU export growth shrunk -5.3% over the last year, yet the UK economy has performed admirably, despite the transitory disruption of BREXIT uncertainty. The paradox is that the further the British pound falls, UK export competitiveness increases and currency translation boosts UK corporate earnings. This virtuous feedback of the currency's invisible hand likely has created a floor under the British pound around $1.20/GBP.

The US has been trying to negotiate a trade deal with the EU for some time, but EU trade deals are always compromised by multilateralism, as any country can veto a deal. The UK has much to gain from a trade deal with the US in extended absence of an EU-US trade deal, enhancing their special relationship. Japan's recent trade deal signed earlier this year would probably still be stuck, if the EU didn't need a win. Japan has indicated it wishes to strike a free trade deal with the UK soon, while their EU deal takes time to ratify and implement. Upon exit from the EU, the UK will have freedom to negotiate bilateral trade deals with any other country, rather than subject to compromised multilateral trade negotiations.

The UK is party to about 40 EU trade agreements with more than 70 countries, but have failed to include either the United States or Japan[3]. The EU's negotiated deals cover just 11% of UK trade, including Japan—this is less meaningful than many likely assume. As the world awaits, at least 10 countries signed so-called *continuity agreements* with the UK to maintain existing relative status quo, including: Switzerland, Norway, Iceland, Israel, South Africa, and Chile. South Korea also announced a pending UK free-trade deal. As trade arrangements reset and currencies adjust, the UK will

[3] Japan-EU agreement only recently achieved on Feb. 1st, thereby ineligible for a UK continuity deal. How convenient.

have a unique opportunity to seek new bilateral agreements, just as the US is pursing now. Such UK trade agreements should be easier to secure than compromised multilateral EU negotiations, which have dragged-on for years with the US and Japan.

Volatility in global equity markets has coincided with uncertainty in regard to various geopolitical issues, particularly US-China trade negotiations. Whenever the U.S. threatens to increase tariffs, legions of economists and strategists suggest that World growth must be doomed to recession and job losses. This misguided belief mixes up effects of volume and price relationships. Import tariffs increase prices, which force manufacturers to lower sales prices or realize lower volume. Lessons for Europe from the recent US-China trade dispute are that those with a traded goods deficit (UK) have greater negotiating leverage and those with a surplus risk permanent loss of market share.

A logical error is assuming a trade tariffs must constrain global consumption. Empirical tariff experience generally reflected all inbound goods were taxed, rather than targeting certain competitive threats. Targeted tariffs can instead shift negotiating leverage, which simply affects market share rather than aggregate consumption, according to Game Theory. Thus, relative mix of imports vs. exports reflect price differentials, such that reduced imports increase net exports, thereby boosting GDP. Imposing targeted tariffs causes an offsetting loss of GDP in the country targeted, but global demand remains unchanged, albeit with slightly higher inflation. Tariffs also may be partially absorbed by reducing profit margins, but generally marginally higher selling prices beget some inflation. Inflation remains lower than even desired, while these tariffs are transitional.

Defense of Europe

How will European and UK defense, intelligence, and homeland security evolve after BREXIT? Leaving the EU should reinforce the UK-US alliance and partnership, as well as provide an opportunity to transform the North Atlantic Treaty Organization (NATO), established 70 years ago for the benefit of 29 countries today. There is increasing debate on both sides of the Atlantic about the future of the members' commitment to NATO and whether threats have changed sufficiently to restructure it. NATO has already engaged for a wider geography, such as the *Resolute Support Mission* in Afghanistan. Australia and NATO signed an enhanced partnership agreement earlier this year with a Pacific regional focus.

NATO has been neglected, seemingly adrift with a fading Cold War mission. Europe's increased spending on the ineffective European Defense Agency (EDA) hoped to stitch together budgets of 28 countries with different national priorities. This exposed Europe and increased reliance on the US for defense of Europe. The EU Parliament seeks a Permanent Structured Cooperation (PESCO) initiative, but the effort stalled given political uncertainties of BREXIT. Without UK financial support and resources, including the region's most capable navy, including two new aircraft carriers entering service by 2020, and the Royal Air Force, the future of the EDA will be marginalized as redundant to NATO.

Eventually Russia's weakened military may be exceeded by global terrorism threats of radicalized non-state organizations (ie., al Qaida, ISIS, and other regional threats or even India vs. Pakistan). Yet, turmoil in Hong Kong, and periodically Taiwan, remind us of China's increasing military strength and nuclear threat. Global conventional, nuclear, cyber, electronic, space, and even Arctic domains must be considered and addressed. Russia remains dominant in Europe and has the unique ability to develop its own systems for land, sea, and air defense for conventional, nuclear, space, electronic, and cyber domain warfare, even if the quality is subpar.

The UK's commitment to NATO is more critical than ever as the US asks for greater burden sharing from other countries. NATO's theater defense orientation needs updating, but tanks, bombers, missiles, and ships are still needed to counter Russia, and increasingly China. New threats also require advanced weapon systems, more special ops, and other capabilities developed to fight non-state militia and radicalized terrorist groups in cities and the countryside. Free from the EDA, the UK can help revitalize NATO's relevance and reshape its mission adapting to evolving threats beyond the European theater. Globalization warrants a stronger western defense alliance, beyond securing just the North Atlantic.

The Marshall Plan after World War II was financed by the US, and made European integration a prerequisite to revive its economy, promote free trade, and prevent further spread of Communism or Fascist Socialism. NATO joined the US, Canada, and European countries in a mutual defense alliance to counter Russian (USSR) aggression. Germany was split East and West, thus remained a potential nexus for any future war, but *Axis Powers* were limited in restoring defense capabilities after WWII. Despite the cost, Germany proceeded with Reunification in 1990 only after agreeing to provide financial aid to collapsing Soviet Russia, which still struggles economically under state-controlled socialism.

It is unlikely that existing cooperation among intelligence agencies would change much organized around peer country alliances, including within NATO. The United States, Australia, New Zealand and Canada participate in the "Five Eyes" intelligence-sharing group in support of strong military cooperation. EU nations spending 1/3rd of the U.S. defense budget, yet can only muster 15% of comparative operational capability.

Practical Realities

Our conclusion is that we believe the UK needs BREXIT and has the sovereign right to *Leave* the EU with or without the EU's consent. We think the UK has more negotiating leverage in the *Separation Agreement* and future negotiations than assumed, if given political room to maneuver---and Her Majesty the Queen tipped the balance of power for BREXIT and post-BREXIT agendas in her recent *Queen's Speech*. Continued timeline extensions are in no one's best interest, as political and economic uncertainty has weighed on all of Europe. The UK can no longer afford to remain dependent on failing economic and ideologic policies of this political union.

BREXIT voters identified with critical issues: (1) Reassert sovereignty and self-determination, (2) Protectionism of the EU's "precautionary principle" and harmonized regulation impeding global competitiveness and innovation, (3) Undemocratic bureaucratic, judicial, and political deterioration, (4) policy reform needed to restore UK economic productivity and potential growth. These issues reflect global anxiety of lagging economic potential evident in rising nationalist and libertarian challengers. Continued EU membership is estimated to cost £1B/month to remain, so it is time to get beyond the uncertainty and settle BREXIT trade, defense, residency and economic issues.

BREXIT uncertainty lingers, but a democratic majority were determined to restore economic productivity, reassert sovereignty, and reclaim judicial prudence. UK Independence open a pathway to fiscal and economic policy reform, as an entrenched EU bureaucratic mindset seems to ignore clear signs of concern. Politicians that dismiss BREXIT as a unique risk further *Independence Days*. In the weeks ahead, the European Parliament and Council of the EU must assess how to reform the union and its policies. To ultimately survive, we think the EU must radically reform its policies, as well as political and judicial organization to better serve the EU Remainder or risk losing other countries, likely beginning with Italy.

Risk that countries may follow the UK's lead or even dissolve the European Union has never been greater with declining economic potential growth after a decade of failed monetary intervention, even if partly due to demographics, There is much speculation about what would happen to the UK economy and its currency after triggering a *No Deal BREXIT*, but three years of uncertainty likely caused greater damage than if BREXIT had been achieved more quickly. Much work remains even if a separation agreement emerges, but there are simple pathways to follow that maintain relative status quo leveraging core principles of existing law, then filling in any gaps opened up that should be reformed anyway.

We have reached a global tipping point and investors should be more pragmatic about understanding logical economic consequences of geopolitical issues and ideological policy choices. Excessive government regulation and market intervention can reinforce economically instability at a time of demographic headwinds and intensifying competition. Change is never easy, but the UK has long struggled politically with sovereign constraints and rights of self-determination under collective government, including its dramatic 1992 exit from the ERM, which hoped to reduce currency volatility and promote monetary stability. Geopolitical change provides opportunities for disciplined tactical views. Countries still matter at a time of greater economic dispersion and international diversification. Boring is good, status quo is comforting, but change presents opportunities. As the October 31st deadline approaches, the once remote likelihood of a *No Deal BREXIT* is more likely, unless the EU engages respectfully without hiding behind unanimous consent.

Far from flourishing, the EU has become economically inefficient and uncompetitive due to its bureaucratic institutions—from governing the European Union to European Central Bank policy, and the EU's judicial organization. Monetary and European Unions must reform or they will diminish in relevance as other countries choose self-determination over collective democratic socialism and borderless chaos. How many times must we choose the wrong road, ignoring history? We expect the UK to flourish over the next decade with a *Full English BREXIT* of new found independence, but after three years, now it is time to get on with it.